1999

ANNUAL REPORT

Beaumont Select
CORPORATIONS

BEAUMONT SELECT CORPORATIONS INC.

NOTICE OF SPECIAL AND ANNUAL MEETING

Beaumont's Special and Annual Meeting of holders of common shares will be held in the Howard Mackie board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 10:00 a.m., Calgary time on Wednesday, December 15, 1999.

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Corporate Directory

DIRECTORS

Winston Ho Fatt

Andrew Hyslop

Peter Kreutzer

TRANSFER AGENT

Montreal Trust

Calgary, Alberta

LEGAL COUNSEL

Howard, Mackie

Calgary, Alberta

AUDITORS

KPMG LLP

Calgary, Alberta

HEAD OFFICE

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Calgary, Alberta T2E 2W7

Tel: (403) 250-8757

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OFFICERS

Winston Ho Fatt

Chairman of the Board, and

Chief Executive Officer

Andrew Hyslop

Secretary

BANKERS

National Bank

Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange

Calgary, Alberta

STOCK SYMBOL

BMN.A

Company Profile

Beaumont Select Corporations Inc. is a management and investment company, and has significant investments in the real estate and the food processing industries. Beaumont charges fees and interest on its investments.

THE REAL ESTATE DIVISION

The Real Estate Division owns three industrial buildings with a total area of approximately 110,000 square feet. In this fiscal year, the Company added 15,000 square feet of office space to its inventory in Calgary.

THE FOOD PROCESSING DIVISION

The Food Processing Division concentrates on providing high quality private label and branded products of a specialty nature in the frozen food and bakery products sectors. The products are distributed to food wholesalers and retailers in North America. On a poundage basis, we are the largest processor of perogies and the largest private label processor of panzarottis in Canada. Our product lines also include high quality Christmas cakes, nanaimo bars, swiss and jelly rolls, donettes, berry cups, crumbs and croutons, mini muffins and lowfat, lifestyle cakes. We sell to all the major grocery chains in Western and Central Canada. Approximately 15% of our sales are made into the U.S.A. and attempts are being made to sell more into Quebec and the Maritimes. Our production facilities are all located in Western Canada.

The goal of the Food Processing Division is to provide its customers with high quality, private label and branded products comparable in quality to those of national brands at lower prices and with a high level of service.

THE CORPORATE GOAL

The corporate goal of Beaumont Select Corporations Inc. is to increase net income by 20% on an annualized basis over a 6-year period and to enhance long-term shareholder value.

The chart below shows the very significant progress we have made over the past six years.

6 YEAR FINANCIAL HIGHLIGHTS

	1999	1998	1997	1996	1995	1994
Sales	**$30,867,251**	$28,959,844	$27,866,348	$26,132,608	$25,935,035	$12,927,489
Operating Income	**1,222,107**	1,087,598	860,447	(387,469)	(314,323)	(1,324,408)
Net Income (Loss)	**1,026,550**[4]	656,783[1]	1,017,120	(248,227)	(873,699)	(806,088)
Funds flow from operations	**2,674,781**[4]	1,632,445[1]	2,116,460	624,681	613,169	(772,072)
EBITDA	**3,564,033**[4]	2,248,736[1]	2,955,924	1,796,869	1,104,184	57,177
Shares outstanding	**20,079,830**	22,555,575	20,832,043	20,482,928[2]	18,494,178[2]	7,862,310[3]
Net Income (Loss) per share	**0.05**[4]	0.03[1]	0.05	(0.01)	(0.05)	(0.10)[3]
Funds flow per share	**0.12**[4]	0.08[1]	0.10	0.03	0.03	(0.10)[3]
EBITDA per share	**0.18**[4]	0.10[1]	0.14	0.09	0.06	0.01[3]
Total Assets	**24,861,663**	22,553,860	21,953,609	20,296,358	19,243,287	7,410,804
Shareholders' Equity	**10,071,207**	9,649,833	8,258,632	7,161,425	7,129,753	3,777,075

Note1: These figures include a one-time expense related to the payment of $700,000 on a corporate guarantee provided to a German bank and a one-time recovery of deferred taxes of $571,000.
Note 2: Includes Class A Common Shares and Class B shares.
Note 3: Reflects the 7:1 share consolidation.
Note 4: These figures include the final settlement of $69,549 related to the payment on a corporate guarantee provided to a German bank.

Report to Shareholders

Your Company had a profitable year in 1999, setting records in all areas of sales, operating income, cash flows, as well as, net income. This marked three consecutive years of profitability.

FINANCIAL HIGHLIGHTS

Sales increased from $28,960,000 to $30,867,000. Operating income increased from $1,088,000 in 1998 to $1,222,000 in 1999. Most importantly, net income increased from $657,000 in 1998 to $1,027,000 in 1999, which translated to $0.05 per share in 1999 compared to $0.03 per share in 1998.

Funds flow from operations were $1,632,000 and $2,675,000 in 1998 and 1999 respectively, while EBITDA was $3,564,000 in 1999 compared to $2,249,000 in 1998.

The current ratio improved significantly over the same period last year to 1.25:1, as a result of the Company raising approximately $2,000,000 in long term debt. However, this also adversely changed the debt to equity ratio to 1.47:1 from 1.34:1. Management believes the value of properties and equipment exceeds their book value by approximately $4,500,000. If this value was taken into account, the ratio would have been 1.02:1.

DIVISIONAL REPORTING

THE REAL ESTATE DIVISION

Over the years, the Company has seen a substantial increase in real estate values in the areas where we own properties. In 1999, the Company acquired an office building just outside the downtown core in the City of Calgary. It added an additional 15,000 square feet of office space to the original 110,000 square feet of industrial space. All buildings are fully leased.

All of the industrial buildings have a ten-year lease with affiliates at market rates, while the office building is now leased to third parties. Two of the three industrial buildings are in prime industrial areas in Calgary, Alberta, while the third one is in Winnipeg, Manitoba. The free cash flow from the rental of these buildings along with other appropriate capital will be used to expand the division.

THE FOOD PROCESSING DIVISION

The Food Processing Division continues to grow as we get new customers in both Canada and the United States.

The Food Processing Division continues to research new product opportunities. In addition, we will continue to expand sales of existing products to a broader geographical base.

Management is of the opinion that the value of our equipment held by the Food Processing Division is worth considerably more than the stated book value. The machinery and equipment have been significantly improved and are producing substantially above the manufacturers guaranteed capacity rates (in one case, at over three times the rate). We believe with proper maintenance they will last far beyond the depreciable life of the equipment and on a replacement basis, would cost more than the original purchase costs.

CORPORATE ACTIVITY

The directors and management feel the shares of the Company are trading on the market at substantially less than their fair value and the Company is continuing the repurchase of shares under a normal course issuer bid. As of June 30, 1999, under its first normal course issuer bid, the Company had repurchased 968,500 shares for a cost of $455,026. In June 1999, the Company received approval from The Alberta Stock Exchange to acquire an additional 1,000,000 shares, representing approximately 5% of the issued and outstanding class "A" shares, through a second Normal Course Issuer Bid, which commenced on June 11, 1999 and will terminate on June 11, 2000.

The Company has reviewed the Y2000 problem, and concluded it is not possible to be certain that all aspects of the Y2000 issue affecting the Company will be fully resolved, particularly where our suppliers are concerned. Management continues evaluating the situation, and will take all necessary precautions to minimize any negative impact should problems occur.

SUMMARY

We anticipate the hard work of the past six years will result in continued improvement in the performance of your Company over the next 24 months.

New product development will continue to be emphasized in the Food Processing Division. As well, the Company continues to expand the market for its food products throughout North America. The U.S. marketplace represents the largest potential for sales growth of existing products. The development of key contacts with both brokers and retailers should enable the Company to grow its U.S. sales substantially over the next few years.

It is the continued objective of the Company to increase our profitability by 20% on an annualized basis, over a 6-year period.

It has been another successful year for the Company. The Company has entered the new year with a renewed optimism and management feels that the Company has the potential for increased sales and profitability, which will translate to the increased value for our shareholders that all employees of the Company are working vigorously to attain.

A NOTE OF THANKS

We wish to take this opportunity to thank all of our managers, supervisors and employees who, as associates, worked so hard to make this another successful year.

Winston Ho Fatt
Chairman and
Chief Executive Officer

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Beaumont Select Corporations Inc. have been prepared by management in accordance with generally accepted accounting principles consistently applied. The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within the information presented in the financial statements.

KPMG LLP, Chartered Accountants, have been appointed by the shareholders of the Company to serve as the Company's external auditors, have examined the consolidated financial statements of the Company for the years ended June 30, 1999 and June 30, 1998.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Company herein.

Winston Ho Fatt
Chairman and Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Beaumont Select Corporations Inc. as at June 30, 1999 and 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
September 22, 1999

Consolidated Balance Sheets

June 30, 1999 and 1998

	1999	1998
ASSETS		
Current assets:		
Cash and term deposits	$ 824,001	$ 590,839
Marketable securities	943,755	587,521
Accounts receivable	2,448,206	2,061,636
Inventory	2,960,233	2,293,038
Prepaid expenses	192,644	243,102
Current portion of loans receivable (note 2)	65,500	87,899
Current portion of due from related parties (note 3)	250,000	65,786
	7,684,339	5,929,821
Loans receivable (note 2)	118,884	50,067
Due from related parties (note 3)	–	306,000
Capital assets (note 4)	14,741,778	13,956,952
Goodwill and other intangibles (note 5)	2,316,662	2,311,020
	$24,861,663	$22,553,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (note 6)	$ 1,370,132	$ 1,245,634
Accounts payable and other liabilities	3,320,976	3,326,952
Current portion of due to related parties (note 3)	–	200,000
Current portion of long-term debt (note 6)	1,451,288	1,575,899
	6,142,396	6,348,485
Due to related parties (note 3)	265,783	240,240
Long-term debt (note 6)	8,382,277	6,315,302
Shareholders' equity:		
Share capital (note 7)	9,449,957	10,615,091
Retained earnings	621,250	551,977
	10,071,207	11,167,068
Due from related party (note 3)	–	(1,517,235)
	10,071,207	9,649,833
Commitments and contingencies (notes 12 and 13)		
Subsequent event (note 16)		
	$24,861,663	$22,553,860

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Winston Ho Fatt
Director

Peter Kreutzer
Director

Consolidated Statements of Operations and Retained Earnings (Deficit)

Years ended June 30, 1999 and 1998

	1999	1998
Revenues	**$30,867,251**	$28,959,844
Cost of sales:		
Direct expenses	**26,038,873**	24,668,504
Depreciation	**1,314,129**	1,042,970
	27,353,002	25,711,474
Operating margin	**3,514,249**	3,248,370
Operating expenses:		
Interest (notes 3 and 6)	**904,392**	722,737
Corporate and administrative (note 3)	**763,450**	757,806
Royalty (note 3)	**360,000**	360,000
Amortization	**264,300**	320,229
	2,292,142	2,160,772
Operating income before the following	**1,222,107**	1,087,598
Other expenses:		
Loss on sale of capital assets and marketable securities	**69,802**	141,929
Other (note 8)	**69,549**	699,661
Foreign exchange loss	**1,544**	83,208
	140,895	924,798
Income before income taxes and other items	**1,081,212**	162,800
Income taxes (note 9):		
Deferred income taxes (recovery)	**–**	(571,000)
Current	**54,662**	35,483
	54,662	(535,517)
Income before other items	**1,026,550**	698,317
Other items:		
Equity in loss of affiliated corporation	**–**	35,973
Minority interest	**–**	5,561
	–	41,534
Net income	**1,026,550**	656,783
Retained earnings (deficit), beginning of year	**551,977**	(104,806)
Excess of consideration rendered over stated value of shares redeemed (notes 3 and 7)	**(957,277)**	–
Retained earnings, end of year	**$ 621,250**	$ 551,977
Net income per share	**$ 0.05**	$ 0.03

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 1999 and 1998

	1999	1998
Cash provided by (used in):		
Operations:		
Net income	**$ 1,026,550**	$ 656,783
Add (deduct) items not requiring cash:		
Depreciation and amortization	**1,578,429**	1,363,199
Loss on sale of capital assets and marketable securities	**69,802**	141,929
Deferred income taxes (recovery)	**–**	(571,000)
Equity in loss of affiliated corporation	**–**	35,973
Minority interest	**–**	5,561
Funds flow from operations	**2,674,781**	1,632,445
Net change in non-cash working capital balances	**(1,439,266)**	(368,654)
	1,235,515	1,263,791
Investments:		
Purchase of capital assets	**(2,107,008)**	(1,097,672)
Purchase of other intangibles	**(269,942)**	(271,322)
Increase in loans receivable	**(46,418)**	(57,430)
Proceeds from sale of capital assets	**12,000**	–
Investment in affiliated corporation	**-**	(70)
	(2,411,368)	(1,426,494)
Financing:		
Increase in long-term debt, net	**1,942,364**	132,871
Repurchase and cancellation of shares	**(605,176)**	(15,445)
Decrease in due to related parties	**(174,457)**	(374,601)
Increase (decrease) in bank loans, net	**124,498**	(223,070)
Increase in due from related parties	**121,786**	48,171
Issue of Class A Common Shares, net of issue costs	**–**	749,863
	1,409,015	317,789
Increase in cash and term deposits during the year	**233,162**	155,086
Cash and term deposits, beginning of year	**590,839**	435,753
Cash and term deposits, end of year	**$ 824,001**	$ 590,839
Funds flow from operations per share:		
Basic	**$ 0.12**	$ 0.08
Fully diluted	**$ 0.11**	$ 0.07

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 1999 and 1998

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements include the accounts of Beaumont Select Corporations Inc. (the "Corporation") and its subsidiaries.

(b) Inventory:

Inventory is recorded at the lower of average cost and net realizable value.

(c) Capital assets:

Capital assets are recorded at cost upon acquisition. Depreciation on capital assets is provided using principally the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Vehicles	6 to 10 years
Leasehold improvements	10 years
Production equipment	10 to 20 years
Buildings	10 to 20 years

(d) Goodwill and other intangibles:

Goodwill is amortized on a straight-line basis over periods ranging from ten to thirty years. Other intangibles are amortized on a straight-line basis over periods ranging from five to ten years. Goodwill represents the excess of cost over the fair value of net assets acquired. Other intangibles relates to deferred financing costs associated with the refinancing of bank loans and long-term debt and deferred development costs associated with the development of new commercially viable product lines and packaging designs. Management reviews the valuation and amortization of goodwill and other intangibles, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future cash flows. Any impairment in the value of the goodwill or other intangibles is written off against earnings. No impairment in goodwill and other intangibles had been determined for the years ended June 30, 1999 and 1998.

(e) Foreign currency translation:

Integrated foreign operations have been translated into Canadian dollars as follows:

Monetary items – exchange rates in effect at the balance sheet date;

Non-monetary items – exchange rates in effect on the dates of those transactions;

Revenues and expenses – at the average exchange rate prevailing during the year; except for inventories, depreciation and amortization which are translated at prevailing rates when the respective assets were acquired.

(f) Marketable securities:

Marketable securities are stated at the lower of cost and market value.

(g) Per share amounts:

Per share amounts are based on the weighted average number of shares outstanding during the year. Fully-diluted per share amounts were calculated based on the weighted average number of shares that would have been outstanding during the year had the options and warrants outstanding been exercised at the time they were earned or issued.

(h) Income taxes:

The Corporation follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement income and taxable income.

(i) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Comparative figures:

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

2. LOANS RECEIVABLE:

	1999	1998
Loans receivable, bearing interest at rates varying from non-interest bearing to 10% per annum, with $70,000 secured by a second charge on all of the assets of the debtor and the remaining balance unsecured and with varying repayment terms	**$184,384**	$137,966
Less current portion	**65,500**	87,899
	$118,884	$ 50,067

3. RELATED PARTY TRANSACTIONS:

(a) Due from related parties:

	1999	1998
Due from an officer and shareholder of the Corporation, bearing interest at 7% per annum payable annually, repayable over 2 years with $50,000 due on January 5, 1999 and the remaining balance due on January 5, 2000 and secured by a pledge by the shareholder of 681,818 Class A Common Shares of the Corporation	**$250,000**	$300,000
Due from an officer and shareholder of the Corporation, unsecured, non-interest bearing with various repayment terms	–	71,786
	250,000	371,786
Less current portion	**250,000**	65,786
	–	306,000

Promissory note, due from a shareholder and officer of the Corporation, non-interest bearing prior to February 28, 1999 and bearing interest at a prime rate thereafter, secured by a promissory note in the amount of $1,517,235 and a pledge by the shareholder of Class A Common Shares of the Corporation totalling 1,363,245 and maturing on February 28, 2002	–	1,517,235
	$ –	$1,823,235

During the year ended June 30, 1999 the Corporation acquired a company controlled by an officer and shareholder of the Corporation in consideration for the promissory note of $1,517,235. The company's sole asset at the time of acquisition was its ownership of the 1,363,245 Class A Common Shares of the Corporation which were subsequently cancelled. As the consideration rendered was in excess of the stated value of the Class A Common Shares acquired, the amount in excess of the stated value of the Class A Common Shares totaling $875,665 was recorded as a reduction of retained earnings.

(b) Due to related parties:

	1999	1998
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually, and payable on a monthly basis and with the principal portion repayable in full on July 1, 2002. The debenture is convertible, at the option of the holder, into 166,667 Class A Common Shares in total until maturity.	**$100,000**	$100,000
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually and payable on a quarterly basis and and with the principal portion repayable in full on July 1, 2000. The debenture is convertible, at the option of the holder, into 166,667 Class A Common Shares in total until maturity.	**100,000**	100,000
Promissory notes due to shareholders of the Corporation, bearing interest at 6.5% to 12% per annum, unsecured and with no fixed terms of repayment.	**65,783**	40,240
Convertible debenture due to a shareholder of the Corporation, bearing interest at 10% per annum compounded annually, secured by all of the issued and outstanding shares of a subsidiary of the Corporation and repayable in full on March 20, 1999. The debenture is convertible, at the option of the holder, into 266,667 Class A Common Shares in total until maturity.	**–**	200,000
	265,783	440,240
Less current portion	**–**	200,000
	$265,783	$240,240

The Corporation is required to make the following future principal payments as follows:

2000	$ –
2001	100,000
2002	100,000
Thereafter	65,783
	$ 265,783

(c) Other related party transactions are as follows:

	1999	1998
(i) Royalty charged by a company in which the chairman of the Corporation is the president	**$360,000**	$ 360,000
(ii) Management fees charged by shareholders of the Corporation included in corporate and administrative expenses	**$739,226**	$ 814,214
(iii) Interest revenue on amounts due from an officer and shareholder of the Corporation included in revenues	**$ 13,389**	$ –
(iv) Interest expense on amounts due to shareholders of the Corporation	**$ 31,951**	$ 16,742
(v) Rental income charged to a company controlled by shareholders of the Corporation included in revenues	**$ 10,695**	$ 27,500

4. CAPITAL ASSETS:

1999	Cost	Accumulated depreciation	Net book value
Production equipment	**$17,894,156**	**$7,839,389**	**$10,054,767**
Buildings	**3,525,682**	**906,849**	**2,618,833**
Leasehold improvements	**1,425,986**	**462,106**	**963.880**
Vehicles	**604,756**	**565,459**	**39,297**
Land	**1,065,001**	**–**	**1,065,001**
	$24,515,581	**$9,773,803**	**$14,741,778**
1998			
Production equipment	$ 16,806,524	$ 6,830,723	$ 9,975,801
Buildings	2,718,602	760,134	1,958,468
Leasehold improvements	1,366,358	347,595	1,018,763
Vehicles	641,175	552,255	88,920
Land	915,000	–	915,000
	$ 22,447,659	$ 8,490,707	$ 13,956,952

5. GOODWILL AND OTHER INTANGIBLES:

1999	Cost	Accumulated amortization	Net book value
Goodwill	**$2,055,267**	**$ 490,266**	**$1,565,001**
Deferred development and financing costs	**1,346,908**	**595,247**	**751,661**
	$3,402,175	**$1,085,513**	**$2,316,662**
1998			
Goodwill	$ 2,055,267	$ 359,159	$ 1,696,108
Deferred development and financing costs	1,076,966	462,054	614,912
	$ 3,132,233	$ 821,213	$ 2,311,020

6. BANK LOANS AND LONG-TERM DEBT:

(a) Bank loans:

The bank loans are revolving lines of credit, repayable on demand, bearing interest at rates ranging from prime plus 3/4% to prime plus 1 1/2% per annum and are secured under various general security agreements covering, all present and after-acquired property of the Corporation, an assignment of life insurance on an officer and shareholder of the Corporation, a general assignment of accounts receivable and inventory, personal guarantees from an officer and shareholder of the Corporation and a postponement of claim by the Corporation.

(b) Long-term debt:

	1999	1998
Term loans, repayable in monthly principal instalments of approximately $105,000 plus interest ranging from prime plus 1% to prime plus 2% per annum and Roynat Inc.'s cost of funds plus 2 1/4% to 2 3/4% per annum and secured as described in note 6(a)	**$6,698,231**	$4,612,493
Mortgages, repayable in monthly instalments of principal and interest, bearing interest at rates ranging from Roynat Inc.'s cost of funds plus 2 1/2% to 2 3/4% per annum	**2,436,513**	2,550,000
Notes payable, non-interest bearing, unsecured, with annual payments varying from $109,965 to $146,620 and repayable in full in December 2002	**523,138**	659,790
Capital leases, due 1999 through 2004, payable monthly, with interest rates ranging from 8% to 12% per annum and secured by certain equipment	**175,683**	68,918
	9,833,565	7,891,201
Less current portion	**1,451,288**	1,575,899
	$8,382,277	$6,315,302

Except as specifically disclosed, the Corporation has pledged as security for the various mortgages and loans, all of the assets of the Corporation.

Included in interest expense is $721,402 (1998 – $617,056) paid during the year on long-term debt.

The Corporation is required to make the following future principal payments as follows:

	Long-term Debt	Capital Leases	Total
2000	$1,406,488	$ 44,800	$1,451,288
2001	1,392,713	37,763	1,430,476
2002	1,273,712	37,148	1,310,860
2003	1,158,337	35,203	1,193,540
2004	772,275	20,769	793,044
2005 and thereafter	3,654,357	–	3,654,357
	$9,657,882	$ 175,683	$9,833,565

During fiscal 2000, a mortgage with an expected balance of approximately $1,000,000.00 is due in full and has been reflected as such in the preceding table. It is the Corporation's intention to renegotiate the terms of the mortgage on its maturity.

7. SHARE CAPITAL:

(a) Authorized:

(i) Unlimited Class A voting Common Shares; and

(ii) 100,000,000 non-voting Class B Shares, Series 2.

(b) Class A Common Shares issued:

	1999		1998	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**22,555,575**	**$11,287,642**	20,832,043	$10,553,087
(i) Issued for cash:				
Private placements	–	–	1,500,000	660,000
(ii) Issued for other consideration:				
Directors, officers and consultants for services received	–	–	254,032	90,000
(iii) Redemption of shares on acquisition of company (note 3)	**(1,363,245)**	**(641,570)**	–	–
(iv) Redemption of shares	**(1,112,500)**	**(523,564)**	(30,500)	(15,445)
Balance, end of year	**20,079,830**	**10,122,508**	22,555,575	11,287,642
Less cumulative issue costs		**(672,551)**		(672,551)
		$ 9,449,957		$10,651,091

During the year ended June 30, 1999 the Corporation acquired 1,112,500 Class A Common Shares for consideration consisting of cash proceeds totalling $605,176. As the consideration rendered was in excess of the stated value of the shares, the amount in excess totalling $81,612 was recorded as a reduction of retained earnings.

Issuance of shares for services received and repurchase for cancellation of shares to settle debt were at prevailing market prices at the time of issuance.

(c) The changes in outstanding options and warrants were as follows:

	Options	Warrants
Outstanding, June 30, 1997	1,163,572	–
Issued	901,427	1,500,000
Expired/cancelled	(269,999)	–
Outstanding, June 30, 1998	1,795,000	1,500,000
Expired/cancelled	(30,000)	–
Outstanding, June 30, 1999	1,765,000	1,500,000

Each of the options outstanding as at June 30, 1999 entitled the holder to acquire one Class A Common Share at prices ranging from $0.42 to $0.56 per share and expire on various dates until December, 2002.

Each of the warrants outstanding as at June 30, 1999 entitled the holder to acquire one Class A Common Share at $0.55 per share and expire on January 5, 2000.

8. OTHER EXPENSES:

During the year ended June 30, 1998, the Corporation received a demand for payment from a German bank pursuant to a guarantee that had been granted in 1992 on behalf of Westgroup International Ltd. ("Westgroup"). Westgroup was sold in April 1993 with the purchaser assuming all liabilities of Westgroup. The guarantee to the German bank, however, remained in place notwithstanding the respective parties' agreement that these guarantees were to be released. During the year ended June 30, 1999, the Corporation reached a settlement agreement with the German bank, resulting in the Corporation paying approximately $770,000, inclusive of associated legal and other fees, of which approximately $700,000 was accrued for during the year ended June 30, 1998 and the remaining balance during fiscal 1999. The Corporation has been pursuing the recovery of amounts from the parties responsible now that the settlement agreement has been finalized. Any amount recovered will be included in earnings in the year in which it is received. As at June 30, 1999, no amounts have been recovered.

9. INCOME TAXES:

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 44.6% (1998 – 44.6%) to income before income taxes and other items. The reasons for the difference are as follows:

	1999	1998
Computed expected tax provision (recovery)	**$ 482,200**	$ 73,000
Add (deduct) the following:		
Recognized benefit of prior year losses	**(672,400)**	(1,120,000)
Large Corporations tax	**54,662**	35,483
Non-deductible amortization	**148,300**	143,700
Non-deductible expenses	**35,000**	316,300
Non-deductible portion of capital losses	**6,900**	16,000
Total income taxes, as reported	**$ 54,662**	$ (535,517)

At June 30, 1999 the Corporation had cumulative income tax deductions totalling approximately $19,089,400, including reported non-capital losses for income tax purposes of approximately $7,150,000 which expire in the years 2000 to 2006. The cumulative income tax deductions exceed the net book value of related assets by approximately $5,203,400. The income tax benefit of these deductions has not been recognized in these financial statements.

Corporate tax returns are subject to assessment by taxation authorities in the normal course of business. The results of any assessments will be accounted for as a charge to earnings in the year in which they occur.

10. SEGEMENTED INFORMATION:

Effective July 1, 1998 the Corporation adopted the new segment disclosure requirements in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The disclosure requirements have been applied retroactively below. Reportable segments are identified on the basis of internal reporting to senior management.

The Corporation operates primarily through two operating groups being: 1) food processing and distribution; and 2) real estate and rental properties. All operations are located in Canada.

Inter-segment eliminations relate to revenues between segments recorded at transfer prices based on current market prices. Operating margin represents total revenues less cost of sales, including depreciation. Operating expenses is comprised of interest, corporate, royalty, amortization and administrative charges. Identifiable assets by industry segment are the assets specifically attributable to those operations.

The following is an analysis of certain consolidated financial information by segment for the years ended June 30:

	1999	1998
Revenues:		
Food processing and distribution	$ 30,812,946	$28,959,844
Real estate and rental properties	588,676	579,780
Inter-segment transactions	(543,371)	(579,780)
	$ 30,867,251	$28,959,844
Operating margin:		
Food processing and distribution	$ 3,610,193	$ 3,360,596
Real estate and rental properties	438,427	467,554
Inter-segment transactions	(534,371)	(579,780)
	3,514,249	3,248,370
Operating expenses:		
Food processing and distribution	2,042,230	1,947,981
Real estate and rental properties	461,946	416,791
Inter-segment transactions	(212,034)	(204,000)
	2,292,142	2,160,772
Other expenses:		
Food processing and distribution	140,895	924,798
Real estate and rental properties	–	–
	140,895	924,798
Income (loss) before income taxes and other items:		
Food processing and distribution	1,524,643	562,242
Real estate and rental properties	(121,094)	(23,662)
Inter-segment transactions	(322,337)	(375,780)
	$ 1,081,212	$ 162,800

Capital assets:

1999	Food processing and distribution	Real estate and rental properties	Total
Production equipment	**$10,054,767**	$ –	$10,054.767
Buildings	–	2,618,833	2,618,833
Leasehold improvements	963,880	–	963,880
Vehicles	39,297	–	39,297
Land	–	1,065,001	1,065,001
	$11,057,944	$ 3,683,834	$14,741,778
1998			
Production equipment	$ 9,975,801	$ –	$ 9,975,801
Buildings	–	1,958,468	1,958,468
Leasehold improvements	1,018,763	–	1,018,763
Vehicles	88,920	–	88,920
Land	–	915,000	915,000
	$ 11,083,484	$ 2,873,468	$ 13,956,952

Expenditures on capital assests and other intangibles and depreciation and amortization:

	1999		1998	
	Expenditures on capital assets and other intangibles	**Depreciation and amortization**	Expenditures on capital assets and other intangibles	Depreciation and amortization
Food processing and distribution	**$1,560,875**	**$1,452,733**	$ 1,368,994	$ 1,250,973
Real estate and rental properties	**816,075**	**125,696**	–	112,226
	$2,376,950	**$1,578,429**	$ 1,368,994	$ 1,363,199

Total identifiable assets:

	1999	1998
Food processing and distribution	**$20,728,150**	$ 19,577,877
Real estate and rental properties	**4,133,513**	2,975,983
	$24,861,663	$ 22,553,860

11. FAIR VALUES:

As at June 30, 1999 and 1998, the fair values of the Corporation's related party balances were considered undeterminable due to the inability to apply a valuation method or obtain market prices. The fair value of the Corporation's marketable securities as at June 30, 1999 was approximately $1,582,000 (1998 - $589,000). The fair values of all other monetary assets and liabilities approximated their carrying values.

12. COMMITMENT:

The Corporation has a royalty agreement with a company in which the chairman of the Corporation is the president. The royalty agreement extends to June 30, 2004 and results in the Corporation having to pay an annual obligation equal to the lessor of:

(i) $360,000; or

(ii) 18% of the gross sales of Dan Dan's Food Products (1994) Ltd. (a wholly-owned subsidiary of the Corporation).

13. CONTIGENCY:

A secured creditor of Sparrow Electric Corporation ("Sparrow"), a former subsidiary, has successfully appealed a court decision wherein Revenue Canada claimed priority over this creditor with respect to amounts owed by Sparrow regarding unpaid statutory deductions. Revenue Canada may have a potential claim of up to $925,000 against the directors of Sparrow. While the Corporation has a policy of indemnification for the directors of Sparrow, there is uncertainty as to whether the indemnification would be applicable in this circumstance. In addition, the Corporation has been advised by its legal counsel that on the basis of the facts presently known with respect to Revenue Canada's claim, the Corporation would have a good defense to an indemnification claim. As a result, no amount has been accrued as a liability and expense within these consolidated financial statements. In the event that Revenue Canada successfully brings a claim against the directors of Sparrow and the Corporation is found liable in a court of law for this claim as a result of the director indemnification, the resulting settlement will be accounted for as a charge to net income in the period in which the settlement occurs.

14. UNCERTAINTY WITH RESPECT TO THE YEAR 2000 ISSUE:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. BUSINESS ACQUISITION:

Effective April 30, 1998, the Corporation acquired 70 common shares of Olympia Mills Inc. ("Olympia") which, combined with the 25 Common Shares of Olympia acquired by the Corporation during the year ended June 30, 1997, resulted in the Corporation owning 95% of the issued and outstanding shares of Olympia. The Corporation accounted for its original 25% investment in Olympia using the equity method of accounting. With the additional acquisition of the 70 common shares of Olympia, the Corporation recorded its additional investment using the purchase method of accounting whereby the fair market values of the assets and liabilities of Olympia have been recorded at the effective acquisition dates and the operating results have been included in the Corporation's financial statements effective April 30, 1998.

The details of the acquisition are as follows:

Capital assets	$ 928,772
Goodwill	221,811
Other intangible assets	118,600
Current liabilities, net	(544,407)
Long-term debt	(462,496)
Minority interest	5,937
Net non-cash assets	268,217
Less bank loan	(123,258)
	$ 144,959
Consideration rendered:	
Equity investment as at June 30, 1997	$ 144,889
Cash	70
	$ 144,959

16. SUBSEQUENT EVENT:

Effective July 13, 1999 Dan Dan's Food Products (1994) Ltd. ("Dan Dan's") signed a long-term financing agreement in the amount of $1,400,000. The financing is repayable in monthly principal repayments totalling $25,000 commencing October 15, 1999 and bears interest at the lender's floating base rate plus 2.5% per annum payable monthly. The financing is secured through a general security agreement covering all present and after acquired property of Dan Dan's, a general assignment of book debts of Dan Dan's, a first charge on all capital assets of Olympia, a collateral debenture totalling $500,000 from Olympia and a second collateral mortgage on an existing leasehold interest by Beaumont Realty Holdings Ltd., a wholly-owned subsidiary of the Corporation.